

**"CareFirst Subsidiary Shares"** shall mean any equity or member interests in a CareFirst Subsidiary held, directly or indirectly, by CareFirst.

**"CareFirst Financial Statements"** shall have the meaning set forth in Section 4.5(a) hereof.

**"Certificate of Authority"** means a certificate issued to Insurers by any insurance administration that such Insurer is required to hold.

**"CFAC"** means CF Acquisition Corporation, a Maryland corporation.

**"Change of Control"** as to a specified person, means a transaction or event or circumstance that results in a party that is not an Affiliate of such specified person immediately prior to such transaction, event or circumstance becoming an Affiliate of such specified person immediately after such transaction, event or circumstance.

**"Closing"** shall have the meaning set forth in Section 2.2 hereof.

**"Closing Date"** means the date of the Closing, as determined under Section 2.2 hereof.

**"Code"** means the Internal Revenue Code of 1986, as amended and the regulations thereunder.

**"Confidentiality Agreement"** shall have the meaning set forth in Section 6.2(c) hereof.

**"Conversion"** shall have the meaning set forth in Section 6.8 hereof.

**"D.C. Superintendent"** means the Superintendent of Insurance of the District of Columbia.

**"Delaware Commissioner"** means the Delaware Insurance Commissioner.

**"DOJ"** shall mean the Antitrust Division of the Department of Justice.

**"Effective Time"** shall have the meaning set forth in Section 2.2 hereof.

**"Environmental Laws"** means federal, state, local, and municipal laws, ordinances, common law, rules, orders, decrees, statutes and regulations, relating to pollution or the protection of the environment or human health and safety, or to the cleanup or restoration of the environment, including, without limitation, any laws or regulations relating to (a) generation, treatment, storage, disposal or transportation of Materials of Environmental Concern, (b) emissions, discharges or other releases or threatened releases of Materials of Environmental Concern or protection of the environment from the same, and (c) exposure of persons to Materials of Environmental Concern.

**"ERISA"** means the Employee Retirement Income Security Act of 1974, as amended, and includes the regulations thereunder.

**"ERISA Affiliate"** means any trade or business the employees of which, together with the employees of CareFirst or Purchaser, as the case may be, are treated as employed by a single employer under Section 414(b), (c), (m) or (o) of the Code.

**"Executive Employee"** means as to Purchaser and CareFirst, as the case may be, those employees listed as such on Attachment 9.10 of this Agreement.

**"FTC"** shall mean the Federal Trade Commission.

**"GAAP"** means generally accepted accounting principles consistently applied in the United States.

**"Governmental Entity"** means any federal, state or local government or any court, administrative or regulatory agency, body or commission or other governmental authority or agency, domestic or foreign.

**"Health Benefit Law"** means any local, state or federal law, ordinance, regulation or order relating to the license, certification, qualification or authority to transact business relating to the provision of or payment for health benefits and insurance and any such laws relating to the regulation of health maintenance organizations, workers' compensation, managed care organizations, insurance, preferred provider organizations, point-of-service plans, third party administrators, utilization review, hospital reimbursement, Medicare and Medicaid participation, fraud and abuse and patient referrals.

**"Hearings"** shall have the meaning set forth in Section 6.7 hereof.

**"HSR Act"** shall mean the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

**"Insurer"** means any person transacting the business of insurance or operating a health maintenance organization, whether or not such person holds a Certificate of Authority for transacting such insurance business or for operating such health maintenance organization.

**"Intellectual Property"** means all patents, inventions, discoveries, technologies, copyrights, software, trademarks, service marks, trade names, corporate names, trade dress, trade secrets and all other intellectual property rights.

**"Investment Banking Firm"** shall have the meaning set forth in Section 3.1(b) hereof.

**"IRS"** means the Internal Revenue Service.

**"Maryland Administration"** means the Maryland Insurance Administration.

**"Materially Burdensome Condition"** means any condition imposed on any Purchaser Company or CareFirst Company which would (i) materially limit the ability of Purchaser after the Merger, as the sole stockholder of CareFirst, to exercise full rights of ownership of the shares of CareFirst, including, without limitation, the right to vote such shares as provided by Maryland law, (ii) materially limit the ability of CareFirst, as the Surviving Corporation in the Merger, to exercise full rights of ownership of the shares of the Primary CareFirst Insurers, including the right to vote such shares as provided by applicable law, (iii) materially limit the ability of Purchaser to operate the business of the CareFirst Companies after the Merger in substantially the same manner as the CareFirst Companies were operated before the Merger, or (iv) materially change the terms of the consideration to be paid in connection with the transactions contemplated by this Agreement. [subject to discussion]

**"Materials of Environmental Concern"** means all hazardous chemicals, solid wastes, hazardous wastes, hazardous materials, toxic substances, petroleum or petroleum products or hazardous substances as now defined or regulated under any Environmental Laws including, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, the Resource Conservation and Recovery Act, the Clean Water Act, the Clean Air Act, the Toxic Substances Control Act and the Hazardous Materials Transportation Act.

**"Maximum Note Consideration"** shall mean an amount equal to the excess, if any, of (i) the Purchase Price over (ii) the sum of (A) the Aggregate Cash Consideration and (B) the Assumed Stock Consideration.

**"Merger"** shall have the meaning set forth in Section 2.1 hereof.

**"Merger Proposal"** shall have the meaning set forth in Section 6.14 hereof.

**"Multiemployer Plan"** means any multiemployer plan as defined in Section 3(37) of ERISA to which CareFirst or the Purchaser, as the case may be, or an ERISA Affiliate of such party has contributed or is or was obligated to make payments, in each case with respect to any current or former employees of CareFirst or the Purchaser, as the case may be, or an ERISA Affiliate of such party before the Closing Date.

**"Multiple Employer Plan"** means a Benefit Plan that is a multiple employer plan subject to Sections 4063 and 4064 of ERISA or Section 413(c) of the Code.

**"Pension Plan"** means a Benefit Plan that is an employee pension benefit plan as defined in Section 3(2) of ERISA.

**"Per Share Amount"** shall have the meaning set forth in Section 3.1 hereof.

**"Primary CareFirst Companies"** shall mean CareFirst, BCBS-MD, BCBS-NCA and BCBSD.

**"Primary CareFirst Insurers"** means BCBS-MD, BCBS-NCA and BCBSD.

**"Primary Purchaser Companies"** means [to come].

**"Primary Purchaser Insurers"** means [to come].

**"Private Letter Ruling"** shall mean a letter ruling from the IRS to CareFirst ruling that:

(a) (i) The Conversion of each of the Primary CareFirst Companies from non-stock nonprofit corporation to a for-profit stock corporations will constitute a reorganization within the meaning of Section 368(a)(1)(E) of the Code; (ii) the Primary CareFirst Companies will be parties to a reorganization within the meaning of Section 368(b) of the Code; (iii) no gain or loss will be recognized by the Primary CareFirst Companies as a result of the reorganization; and (iv) each of the Primary CareFirst Companies' basis, holding periods, earnings and profits, and accounting periods and methods will not be affected by the Conversion.

(b) The Merger will not cause the Conversion to violate the continuity of interest requirement of Treasury Regulation Section 1.368-1(e), or otherwise cause the Conversion to fail to qualify as a reorganization within the meaning of Section 368(a)(1)(E) of the Code.

(c) Gain or loss recognized by the Tax-Exempt Entities from the exchange of the CareFirst Common Stock in the Merger will not be subject to unrelated business income tax.

**"Purchase Price"** means \$1.3 billion, in U.S. dollars.

**"Purchaser"** means Pacific, a \_\_\_\_\_ for-profit corporation.

**"Purchaser Common Stock"** means the Common Stock of the Purchaser.

**"Purchaser Company"** means Purchaser and any Purchaser Subsidiary.

**"Purchaser Disclosure Schedule"** means the confidential disclosure provided by Purchaser to CareFirst pursuant to this Agreement.

**"Purchaser Financial Statements"** shall have the meaning set forth in Section 5.6(c) hereof.

**"Purchaser Insurer"** means any Purchaser Company that is an Insurer.

**"Purchaser Material Adverse Effect"** means a material adverse effect on the business, assets, liabilities, financial condition or results of operation of Purchaser and the Purchaser Subsidiaries, taken as a whole.

**"Purchaser Proxy Statement"** means the proxy statement filed by the Purchaser with the SEC and delivered to Purchaser's stockholders who are entitled to vote on the merger or any of the other transactions contemplated hereby.

**"Purchaser SEC Filings"** shall have the meaning set forth in Section 5.6 hereof.

**"Purchaser Subsidiary"** shall mean every entity in which Purchaser owns 50% or more of the outstanding equity, directly or indirectly, and which is material to the operations or financial condition of Purchaser.

**"Purchaser Subsidiary Shares"** shall have the meaning set forth in Section 5.1(c) hereof.

**"Qualified Plan"** means a plan qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended.

**"Resale Registration Statement"** means the registration statement to be filed by Purchaser with the SEC to register the Purchaser Common Stock to be issued in the Merger for resale by the Tax-Exempt Entities.

**"SAP"** shall mean the statutory accounting practices prescribed or permitted by the Departments of Insurance of the State of Maryland, the State of Delaware, the Commonwealth of Virginia or the District of Columbia, as the case may be.

**"SEC"** means the Securities and Exchange Commission.

**"Securities Act"** shall have the meaning set forth in Section 5.9 hereof.

**"Subordinated Note"** means a subordinated note substantially in the form of Appendix F.

**"Superior Proposal"** shall have the meaning set forth in Section 6.14 hereof.

**"Surviving Corporation"** shall have the meaning set forth in Section 2.1 hereof.

**"Tax-Exempt Entity"** shall have the meaning set forth in the Recitals hereto.

**"Taxes"** means all federal, state, local and foreign income, property, sales, excise and other taxes, of any nature whatsoever (whether payable directly or by withholding), together with any interest and penalties, additions to tax or additional amounts imposed with respect thereto.

**"Transition Team"** shall have the meaning set forth in Section 6.2(b) hereof.

**"Welfare Plan"** means a Benefit Plan that is an employee welfare benefit plan as defined in Section 3(1) of ERISA.



## ARTICLES OF MERGER

between

**CAREFIRST, INC.**  
(a Maryland Corporation)

and

**CF ACQUISITION CORP.**  
(a Maryland Corporation)

CAREFIRST, INC., a corporation duly organized and existing under the laws of the State of Maryland ("CareFirst"), and CF ACQUISITION CORP., a corporation duly organized and existing under the laws of the State of Maryland ("CFAC"), do hereby certify that:

**FIRST:** CareFirst and CFAC agree to merge.

**SECOND:** The name and place of incorporation of each party to these Articles are CAREFIRST, INC. a Maryland corporation, and CF ACQUISITION CORP., a Maryland corporation. CareFirst shall survive the merger as the successor corporation and shall continue under the name "CAREFIRST, INC." as a corporation of the State of Maryland.

**THIRD:** CareFirst has its principal office in the State of Maryland in Baltimore County. CFAC has its principal office in the State of Maryland in Baltimore County and does not own an interest in land in the State of Maryland.

**FOURTH:** The terms and conditions of the transaction set forth in these Articles were advised, authorized, and approved by each corporation party to the Articles in the manner and by the vote required by its Charter and the laws of the state of its incorporation. The manner of approval was as follows:

(a) The Board of Directors of CareFirst at a meeting duly called and held on \_\_\_\_\_, 2001 adopted resolutions which declared that the proposed merger was advisable on substantially the terms and conditions set forth or referred to in the resolutions and directed that the proposed merger be submitted for consideration by unanimous written consent of the stockholders of CareFirst. Notice was waived by each stockholder of CareFirst. By written consent dated \_\_\_\_\_, 2001, signed by all of the stockholders of CareFirst and filed with the minutes of proceedings of stockholders, the proposed merger was approved by the stockholders of CareFirst by the affirmative vote of all the votes entitled to be cast on the matter.

(b) The Board of Directors of CFAC by unanimous written consent dated \_\_\_\_\_, 200\_ signed by all the directors and filed with the minutes of proceedings of the Board of Directors of CFAC adopted resolutions which declared that the proposed merger was advisable on substantially the terms and conditions set forth or referred to in the resolutions and directed that the proposed merger be submitted for consideration by written consent of the sole stockholder of CFAC. Notice was waived by such stockholder. By written consent dated \_\_\_\_\_, 200\_, signed by the sole stockholder of CFAC and filed with the minutes of proceedings of stockholders, the proposed merger was approved by the sole stockholder of CFAC.

**FIFTH:** No amendment to the Charter of CareFirst is to be effected as a part of the merger.

**SIXTH:** The total number of shares of capital stock of all classes which CareFirst or CFAC, respectively, has authority to issue, the number of shares of each class which CareFirst or CFAC, respectively, has authority to issue, and the par value of the shares of each class which CareFirst or CFAC, respectively, has authority to issue are as follows:

(a) The total number of shares of stock of all classes which CareFirst has authority to issue is \_\_\_\_\_ shares, of which \_\_\_\_\_ shares are classified as Preferred Stock (par value \$ \_\_\_\_\_ per share) and \_\_\_\_\_ shares are classified as Common Stock (par value \$ \_\_\_\_\_ per share). The aggregate par value of all the shares of stock of all classes of CareFirst is \$ \_\_\_\_\_.

(b) The total number of shares of stock of all classes which CFAC has authority to issue is \_\_\_\_\_ shares, of which \_\_\_\_\_ shares are classified as Preferred Stock (par value \$ \_\_\_\_\_ per share) and \_\_\_\_\_ shares are classified as Common Stock (par value \$ \_\_\_\_\_ per share). The aggregate par value of all the shares of stock of all classes of CFAC is \$ \_\_\_\_\_.

**SEVENTH:** The merger does not change the authorized stock of CareFirst.

**EIGHTH:** The manner and basis of converting or exchanging issued stock of the merging corporations into different stock of a corporation, for other consideration and the treatment of any issued stock of the merging corporations not to be converted or exchanged are as follows. At the effective time of the merger, each issued and outstanding share of CareFirst common stock shall, by virtue of the merger and without any action on the part of the holder thereof, be converted into the per share amount as set forth herein. The per share amount shall be an amount equal to the [(x) the aggregate cash consideration plus the aggregate stock consideration] divided by (y) [the number of shares of CareFirst common stock outstanding immediately prior to the effective time]. At the closing, each holder of outstanding CareFirst common stock as shown on the books and records of CareFirst shall receive, in respect of each share of CareFirst common stock, a certificate or certificates representing the number of shares of the purchaser common stock along with cash (or immediately available funds) that together constitute the per share amount.



NINTH: The merger shall become effective at 11:59 p.m. on \_\_\_\_\_, 2007

IN WITNESS WHEREOF, CAREFIRST, INC. and CFAC have caused these presents to be signed in their respective names and on their respective behalves by their respective presidents and witnessed by their respective secretaries on \_\_\_\_\_, 2007.

WITNESS:

CAREFIRST, INC.  
(a Maryland corporation)

\_\_\_\_\_  
Secretary

By \_\_\_\_\_  
President

WITNESS:

CF ACQUISITION CORP.  
(a Maryland corporation)

\_\_\_\_\_  
Secretary

By \_\_\_\_\_  
President

THE UNDERSIGNED, President of CAREFIRST, INC., who executed on behalf of the Corporation the foregoing Articles of Merger of which this certificate is made a part, hereby acknowledges in the name and on behalf of said Corporation the foregoing Articles of Merger to be the corporate act of said Corporation and hereby certifies that to the best of his knowledge, information and belief the matters and facts set forth therein with respect to the authorization and approval thereof are true in all material respects under the penalties of perjury.

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President

THE UNDERSIGNED, President of CF ACQUISITION CORP., who executed on behalf of the Corporation the foregoing Articles of Merger of which this certificate is made a part, hereby acknowledges in the name and on behalf of said Corporation the foregoing Articles of Merger to be the corporate act of said Corporation and hereby certifies that to the best of his knowledge, information and belief the matters and facts set forth therein with respect to the authorization and approval thereof are true in all material respects under the penalties of perjury.

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President